

Project title: An ORDINANCE AMENDING the Everett Municipal Code regarding an exemption for Special Connection Charges for Low-Income Housing Projects, amending EMC chapter 14.08 Water and Sewers.

Council Bill # *interoffice use*
CB 2304 – 26

Agenda dates requested:

Briefing 4/19/2023
Proposed action 4/26/2023
Consent

Action
Ordinance 5/3/2023
Public hearing 5/3/2023
X Yes No

Budget amendment:
Yes X No

PowerPoint presentation:
X Yes No

Attachments:
Ordinance
Housing Development
Incentives Report

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Planning

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Initialed by:

Department head

Administration

Council President

Project: Housing Development Incentives Program (HDIP) – Special Connection Charges exemption for low-income housing projects

Partner/Supplier : NA

Location: Citywide

Preceding action: Housing Development Incentives Program WA State Department of Commerce Housing Action Plan Implementation Grant approval

Fund:

Fiscal summary statement:

The exemption of special connection charges is a reduction in fee revenue to applicable enterprise funds. These charges contribute to capital facility improvement project funding associated with the relevant utility. The previous program exempted \$1.4M over a four-year period yielding 355 affordable housing units at \$4,000 subsidy per unit. The total exempted during this time is considered a relatively small contribution to the enterprise capital facility fund compared to the overall collection of charges and other revenue sources. If needed, the reduction in fees can be recalibrated when updating special connection charges. The staff recommendation is to cap connection charge reductions at \$500,000 per year.

Project summary statement:

To implement several actions in the city's housing action plan ("[Rethink Housing](#)"), the city secured a grant from the [Dept. of Commerce](#) for housing action plan implementation. The work program included a study and report on housing incentives currently in use by the city and potential new ones. This ordinance implements recommendations from [Rethink Housing](#) and the [Housing Development Incentive Program \(HDIP\) report](#).

The proposal reinstates administrative authority to reduce Special Connection Charges for development of low-income housing, similar to a previous exemption, established by Ordinance 3632-18, which supported the development of 355 affordable housing units within in the city prior to sunseting in 2021.

The proposed ordinance, like the previous ordinance, authorizes a reduction of up to eighty percent of the charges for units affordable to household earning sixty percent and below of area median for the area and requires the unit remain affordable until the property changes use, at which time the charges would be due to the city. Although the previous ordinance did not limit a citywide total amount available for exemption, the recommendation is to administratively set a cumulative exemption cap per year at \$500,000, which would yield about 125 housing units annually. See Chapter 4.0 of the [HDIP report](#) for more details and analysis.

Recommendation (exact action requested of Council):

Adopt an ordinance amending the Everett Municipal Code regarding an exemption for Special Connection Charges for Low-Income Housing Projects, amending EMC chapter 14.08 Water and Sewers.

ORDINANCE NO. _____

**An ORDINANCE Relating to Exempting Special Connection Charges for Low-Income Housing Projects,
AMENDING Chapter 14.08 of the Everett Municipal Code**

WHEREAS,

- A.** Everett, along with the Puget Sound Region, is experiencing a housing availability and affordability crisis; Census estimates (American Community Survey Table S2503 for 2021) indicate widespread housing cost burden in the city:
 - 1. 42% of the city's households pay more than 30% of their income for housing costs;
 - 2. 77% of the city's below median income renter households pay more than 30% of their income for housing costs; and
- B.** The city's comprehensive plan includes the following policies and implementation measures that are supportive of this ordinance:
 - 1. The goal of the Housing Element is to provide sufficient housing opportunities to meet the needs of present and future residents of Everett for housing that is decent, safe, accessible, attractive and affordable. (Housing Goal 4.0)
 - 2. Consider providing additional incentives to housing developers and homebuilders in return for providing housing that is affordable to lower and moderate-income households. (Housing Policy 4.3.1)
- C.** The City Council adopted the Rethink Housing Action Plan on October 7, 2021 specifying short-term implementation strategy as follows:
 - 1. Action S-5. Coordinate a Development Incentives Study to provide guidance on changes and initial incentives for affordable housing construction and preservation
 - 2. Recommendation 2.2: Provide a detailed economic study of potential incentives in urban corridors
 - 3. Recommendation 4.2: Create financial assistance programs for affordable housing preservation
 - 4. Recommendation 4.4: Expand fee waivers for affordable housing

5. Recommendation 4.6: Review and update the Multifamily Tax Exemption (MFTE) program
 6. Recommendation 4.7: Review and update development height incentives program for affordable housing units; and
- D. The city commissioned a housing development incentives study and report, which includes an economic analysis that finds fee waivers and exemptions to be effective incentives for affordable housing construction; and
 - E. RCW 35.92.380 authorizes waiver or delay of collection of tap-in charges, connection or hookup fees, also known as system development charges, for low-income persons; and
 - F. The city imposes a special connection charge, which is a system development charge, codified at 14.08.135; and
 - G. Extremely low-income and low-income housing projects that receive public funding are typically subject to income, rent and price restrictions enforced through recorded covenants, ensuring affordability but also limiting funds available for development costs; and
 - H. Exemption of special connection charge will enable low-income housing projects to become more economically viable and produce more low-income housing units; and
 - I. This ordinance is categorically exempt from the State Environmental Policy Act under WAC 197-11-800(14) and (19); and
 - J. On _____, 2023, the Everett City Council held a public hearing, after proper notice, and considered public comment and the entire record related to this ordinance.

NOW, THEREFORE, THE CITY OF EVERETT DOES ORDAIN:

Section 1. Ordinance 3632-18, codified as EMC 14.08.135, is amended to add the following section:

L. The planning director, after consultation with the director of public works, may grant a reduction of applicable special connection charges of not more than eighty percent of the special connection charges. Upon application, the planning director shall base approval of a reduction on meeting the following requirements:

1. Special reductions shall only be available to affordable multi-family units serving households earning at or below sixty percent of area median income for Snohomish County as established by the United States Department of Housing and Urban Development.
2. The fee exemption shall only be granted when the applicant demonstrates the following criteria have been met:
 - i. The project will benefit the public;
 - ii. The applicant has sought other funding sources;
 - iii. There is a financial hardship to the project of paying the system development charge; and

- iv. The project is consistent with adopted city plans and policies relating to low-income housing.
 - v. Granting a reduction must not conflict with any water or sewer revenue bond covenants
3. An exemption granted under this subsection must be conditioned upon requiring the developer to record a covenant with the Snohomish County Auditor, approved by the planning director, that prohibits use of the property for any purpose other than for affordable housing. At a minimum, the covenant must address price restrictions and household income limits of subsection 14.08.135(L)(1), and require that, if the property is converted to a use other than for affordable housing as defined by the covenant, the property owner must pay the applicable system development charge in effect at the time of any conversion.
4. Area median income shall mean the estimate from the Department of Housing and Urban Development (HUD) of how much money a household in a given area earns.
5. For the purpose of this section, affordable housing means housing where monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the resident's household gross monthly income and where household monthly income must be sixty percent or less of the Snohomish County median family income adjusted for family size as reported by the U.S. Department of Housing and Urban Development.

Section 2. The following is provided for reference and may not be complete:

EMC Amended/Repealed by this Ordinance	Ordinance History of EMC Amended/Repealed by this Ordinance
EMC 14.08.110	(Ord. 3632-18 §§ 1—11; Ord. 3095-08 § 1—11.)

Section 3. The City Clerk and the codifiers of this Ordinance are authorized to make necessary corrections to this Ordinance including, but not limited to, the correction of scrivener's/clerical errors, references, ordinance numbering, section/subsection numbers, and any internal references.

Section 4. The City Council hereby declares that should any section, paragraph, sentence, clause or phrase of this ordinance be declared invalid for any reason, it is the intent of the City Council that it would have passed all portions of this ordinance independent of the elimination of any such portion as may be declared invalid.

Section 5. The enactment of this Ordinance shall not affect any case, proceeding, appeal or other matter currently pending in any court or in any way modify any right or liability, civil or criminal, which may be in existence on the effective date of this Ordinance.

Section 6. It is expressly the purpose of this Ordinance to provide for and promote the health, safety and welfare of the general public and not to create or otherwise establish or designate any particular class or group of persons who will or should be especially protected or benefited by the terms of this Ordinance. It is the specific intent of this Ordinance that no provision or any term used in this Ordinance is intended to impose any duty whatsoever upon the City or any of its officers or employees. Nothing contained in this Ordinance is intended nor shall be construed to create or form the basis of any liability on the part of the City, or its officers, employees or agents, for any injury or damage resulting from any

action or inaction on the part of the City related in any manner to the enforcement of this Ordinance by its officers, employees or agents.

Cassie Franklin, Mayor

ATTEST:

CITY CLERK

Passed: _____

Valid: _____

Published: _____

Effective Date: _____

Draft Report v.4.1

March 2023

City of Everett

Housing Development Incentive Program

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EXECUTIVE SUMMARY

Through the support of a grant from the Department of Commerce, the City of Everett (City) analyzed housing incentive programs that are intended to encourage construction of a greater variety of affordable and market rate housing types at prices that are accessible to a greater variety of incomes. In doing this work, the City considered approaches to create more affordable housing units and evaluate residential displacement, particularly in neighborhoods with communities at high risk of displacement. This work includes the following strategies and recommendations from the adopted Rethink Housing Action Plan:

- Strategy 5: Coordinate a Development Incentives Study to provide guidance on changes and initial incentives for affordable housing construction and preservation.
- Recommendation 2.2: Provide a detailed economic study of potential incentives in urban corridors.
- Recommendation 4.4: Expand fee waivers for affordable housing.
- Recommendation 4.6: Review and update the Multi-family Tax Exemption program.
- Recommendation 4.7: Review and update development height incentives program for affordable housing units.

"The current housing availability and affordability crisis....in Everett continues to threaten housing stability and quality of life for the community."

Everett Housing Action Plan
November 2021

A key focus for the analysis was to consider incentive programs that could stimulate housing development at scale. Locations where zoning allows larger housing developments are principally in the Metro Everett (downtown) and along the City's key urban corridors, which include:

- SR 99/Evergreen Way from Metro Everett south to Airport Way
- Broadway from Metro Everett north to the City limits
- Everett Mall Way
- Casino Road from Evergreen Way to Airport Way

The analysis considered multiple development scenarios for two representative project types, a 5 over 1 podium style construction similar to apartment projects in the Metro Everett zone and a townhome style construction. The analysis also considered the private sector investment constraints to developing new multi-family projects under four development scenarios. The analysis was organized into the following elements, each providing important information on the performance and possible continuation of key multi-family housing development incentive programs.

Update the Financial Analysis from the Rethink Housing Action Plan – Appendix G

The financial model update involved adding current rental market and construction cost information to the Appendix G model in the Rethink Housing – Housing Action Plan (HAP).

The Appendix G update relied on current market analysis and development feasibility study provided by private investment representative Cushman & Wakefield. This information was then used by BERK Consulting to update the financial model. The updated financial model provided an estimate of development costs and rental rates for four multi-family development scenarios that are similar to those considered in the HAP.

The update of the financial analysis is discussed in Section 1.0. The supporting analysis is provided in detail as Attachment 1.2.

The market information identified three key influences affecting the rate of multi-family housing development in Everett:

1. Construction and financing costs exceed rental incomes.
2. Light Rail investments elsewhere in Snohomish County will create more multi-family housing sooner than Everett.
3. There is strong competition for investors and tenants based on community amenities and project financial performance.

The financial analysis considered several regulatory incentives and administrative tools available to the City to help offset conditions that may be limiting multi-family housing starts. These include multi-family development incentives and fee waiver programs that directly reduce multi-family project development costs and administrative approaches to increasing the certainty of a project's financial performance to improve investor interest in Everett housing projects.

Review Performance and Propose Adjustments to the City's Multi-family Housing Incentive Programs

The review of incentive programs made available by the City for multi-family housing projects include:

- Multi-family Tax Exemption Incentive (EMC 3.78)
- Height Density Bonus Program (EMC 19.22.080)
- Affordable Housing Fee Reduction and Waiver Programs, including:
 - System Connection Fees (formerly Ordinance 3579-17)
 - EMC 19.50.065 Traffic impact fee exemption for low-income housing
 - EMC 19.51.145 Traffic mitigation fee exemption for low-income housing
 - EMC 19.52.060 School impact fee exemption for low-income housing
 - EMC 16.72.040 Waiver of land use application fees for low-income housing

The performance of current housing incentives is best found in Table 2.1. Figures 2.2A-E show incentive project locations.

Since 2012, these programs have supported the development of over 2,600 new multi-family housing units, including over 1,000 affordable multi-family housing units. These projects have used the Multi-family Tax Exemption and Affordable Housing Fee Reduction and Waiver programs. The Height Density Bonus Program has not been utilized.

In 2020, the Washington State legislature revised rules governing the Multi-family Tax Exemption program. Also, in December 2021, the City's system Connection Fee ordinance sunset. These two circumstances provide an opportunity for the City to revisit its' corresponding programs and recommend updates that reflect current legislation and respond to current market conditions.

Based on the past performance of tax-exempt projects and new legislative actions (ESSBI552), this report recommends the City update its' Multi-family Tax Exemption Incentive Program and expand the residential target areas to better align with the City's urban corridors and Metro Everett housing development and zoning code. The report also recommends reinstating low-income housing waivers for system connection fees and park impact fees. The height density bonus should be re-evaluated based on building height evaluations planned for the Comprehensive Planning process.

Other Housing Development Incentives Currently in use Elsewhere in Washington

The City reviewed housing studies and incentive programs offered or considered by other public agencies in Washington. The analysis also considered Sound Transit studies related to Transit Oriented Development near light rail transit stations. The resultant list of housing development incentives was considered against the City's

Housing development incentives considered in this study are summarized in Table 5.1 on Page 5-2.

current list of available housing incentives to identify opportunities for new incentive structures to stimulate affordable multi-family housing. The review considered four types of incentives: 1) regulatory, 2) administrative, 3) housing capacity near transit, and 4) affordable housing. The analysis concluded the City is already offering the majority of regulatory incentives in use elsewhere in Washington. The review did, however, identify specific actions to enhance existing multi-family development, including:

- Study adjustments in parking requirements to increase parking flexibility, particularly around high-capacity transit neighborhoods.
- Continue the Multi-family Tax Exemption incentive and expand its' availability to urban corridors.
- Reinstatement of the system (special connection charges) fee waiver exemption for affordable housing projects.
- Evaluation alternatives for reducing permit timelines.
- Advance the Evergreen Way Revitalization Plan (Ordinance 3268-12) to improve investor interest in urban corridor housing.
- Coordinate with Sound Transit on multi-family housing strategies for Everett Link Extension station areas.

Individual Project and Cumulative Financial Impacts on City Finances

To understand how specific incentives affect the City's finances the study included an analysis of the potential costs of offering the incentive programs. This involved using the development cost and rental rate information developed by Cushman & Wakefield and applying growth projections for incentive program projects over the next ten years. The analysis considered developing 36 Multi-family Tax Exempt projects with over 2,400 new multi-family units. Combined with the recommended fee waivers, these incentives could provide for over 1,200 new affordable units.

The financial impact analysis considered three types of financial impacts to the City: 1) foregone tax revenues, 2) tax revenues that are shifted to other property owners in the taxing district, 3) the effect of the exemption on special taxing districts, and 4) the timing and administrative costs of managing the program(s). In addition to direct costs to the City, the analysis also estimated direct and indirect benefits the City may realize as a result of new multi-family housing construction.

Project and cumulative financial effects will depend on the type, size, and timing of individual MFTE projects. A "hypothetical" financial model, based on reasonable assumptions, is described in Section 6.0 and presented in Attachment 6.1.

Based on the assumptions in the model the direct impact to taxes collected from exempt projects over the next 10 years could be up to \$33MM, with the City's portion being up to \$5.7MM. Portions of this tax could be shifted to other taxpayers in the Everett taxing district or foregone from City collection. The analysis considered the City's \$5.7MM of foregone tax revenues to be approximately 5% of the estimated real estate equity created through the new multi-family tax exemption development projects and roughly equivalent to the estimated tax increase from project construction and retail sales increases resulting from the occupancy of new multi-family tax exemption projects.

Feasibility of New Housing Development Incentives

The objective of analyzing new incentives is to identify new public policies that may stimulate housing development in Metro Everett, along the City's urban corridors and near EVLE station areas. Specific criteria used to further evaluate the incentives being considered include:

- An existing policy framework through which the incentive can be implemented.
- The likelihood the incentive would produce housing units across all income levels.
- The cost of incentives does not adversely burden the City or the taxpayer.
- There is the availability of funding to implement and administer the incentive.

The feasibility of incentives is presented in Tables ES.1 and 7.1.

Incentive programs to test against these criteria were from the regulatory, administrative, near transit, and affordable housing incentives identified through the analysis of other programs in use in Washington. That assessment identified eleven individual incentives for further evaluation.

Three of the incentives (Multi-family Tax Exemption, Fee Waiver, and Building Height Density) fit within the framework and funding provided by the Department of Commerce HDIP grant and are proposed to be carried forward to the Planning Commission in Q1-2023. The remaining incentives require additional study or administrative action, with several being better suited for evaluation as part of the Comprehensive Planning process or in support of Sound Transit's light rail project.

Stakeholder Outreach

A key aspect of the HDIP project was gathering input from community groups and industry representatives that develop multi-family (MF) projects in the Snohomish County-North King County region. These included housing organizations and private investors that are financing and building apartment and townhome projects. The community groups were receptive to the presentation of how incentive programs have performed in Everett over the past decade. Specific input involved questions about high-capacity transit connections in the City and the performance of incentive programs to provide affordable units. Input from private investors was very informative about specific challenges of developing multi-family projects in Everett, including:

- The cost of parking requirements.
- The cost imposed by extended permitting timelines.
- The absence of fee simple townhome options for resale units.
- The need for improved walkability to connect new projects to existing neighborhoods.
- The requirement for upper floor setbacks for smaller projects.

In addition to the stakeholders, input was gathered from other consultants working on housing development policies in Everett, including Sound Communities, the Urban Land Institute, PSRC, and Sound Transit. Key strategies being considered by these organizations include:

- Washington State Housing Finance Commission's Land Acquisition Program to assist with financing land acquisition in exchange for affordability limits for 35 years.
- Sound Communities revolving loan approach to land-banking for future housing affordability near transit stations. Sound Communities is also advocating for legislation to allow housing benefit districts.
- ULI's recommendation for improving Evergreen Way to stimulate more multi-family housing along the corridor, particularly between SR 526 and Airport Way and reducing permit timelines.

Table ES.1. Feasibility of Incentives.

	Framework	Housing at all Income Levels	Cost to Implement the Incentive	Grant or other Funding Availability	Recommendation
Increase housing variety.	Comp Plan	Y	U	Y	Conduct further analysis during Comp Plan update process. Underway and legally required.
Conduct a study to assess residential parking requirements.	Follow up to HDIP	Y	\$100K - \$200K	N	Initiate Study as outcome of HDIP recommendations.
Update and expand the multi-family tax exemption (multi-family TE) programs as recommended in Section 2.0.	HDIP	Y	\$75K	Y	Bring to Planning Commission and City Council as part of HDIP Phase 2.
Reconsider the height density bonus incentive.	HDIP	Y	\$0	Y	Retain program for now but reconsider as part of Comp Plan.
Assess permit timeline reduction opportunities through review of administrative procedures, permits systems, and staffing levels.	Director Decision	Y	\$100K - \$200K	U	Move forward at Director discretion.
Consider pre-approved building plans for smaller multi-family projects.	Director Decision	Y	\$100K - \$200K	N	Move forward at Director discretion.
Initiate subarea planning and planned action EIS process for Everett Link Extension (EVLE) station areas.	EVLE Program	Y	\$1.5M - \$2M	Y	Implement with Sound Transit as part of EVLE Phase 2 Planning.
Initiate subarea planning of prototype transit nodes within urban corridors.	Director Decision	Y	\$1M - \$1.5M	N	Would require City budget to be directed to node-specific planning effort.
Consider mandatory inclusionary zoning.	Comp Plan	Low and moderate income	\$50K - \$100K	Y	Up-zone areas through Comp Plan update process before considering.
Consider Housing Benefit District.	State Legislation	Y	TBD	N	Monitor new legislation and evaluate feasibility based on legislative requirements.
Consider REET2 tax dollars to support affordable housing projects for 50% to 80% AMI households.	Council Decision	Low income	Up to \$1M	Y	Council action required.
Reinitiate the fee waiver/reduction for system connection fees and establish for park impact fees.	HDIP	Low income	\$500K	Y	Bring to Planning Commission and City Council as part of HDIP Phase 2.

City of Everett

ASSESSMENT OF CITY HOUSING INCENTIVES- UPDATE TO APPENDIX G OF THE HOUSING ACTION PLAN

BERK Consulting Inc.

November 2022

Executive Summary

As part of Rethink Housing, the City of Everett is coordinating a review of its housing policies to change current incentives to support long-term housing needs. As part of this effort, this report looks at how current and future housing incentives could change housing yields and encourage private, for-profit developers to build new housing. This effort is intended to build upon and update Appendix G of the 2021 Rethink Housing Everett Housing Action Plan.

This work examines the following incentives:

- Height incentives for affordable housing and in-lieu payments ([EMC 19.22.080](#)).
- Parking reductions ([EMC 19.34.025\(B\)](#)).
- The Multifamily Housing Tax Exemption (MFTE) program ([Chapter 3.78 EMC](#)).
- Transportation and school impact fee waivers ([EMC 19.50.065](#), [19.51.145](#), and [19.52.060](#)).

The analysis reviews how changes to these incentives might affect the financial feasibility of new multifamily residential projects and consequently, the likelihood that development will occur. To this end, this assessment specifically focuses on how the financial returns of prototypical projects might change under different policy options. A pro forma/discounted cash flow model evaluates development based on different construction and parking types and calculates how rates of return-on-investment equity would change according to different types of incentives, regulations, and requirements.

Based on these evaluations, the following conclusions can be reached:

- **Current economic conditions do not provide strong support market-rate multifamily development.** As the market assessment included as Attachment 1.1.1B discusses, current rents, building costs, and interest rates in the Everett market do not support building new multi-family housing projects considered in this study. This does not mean that projects will not be built at all, especially if they would have higher rents or lower building costs than represented in this assessment. It does, however, indicate that projects in the 75-to-150-unit size will be low.
- **Available programs do not provide sufficient incentives to address this gap.** Under current market conditions, the incentives available to developers in Everett may not be enough to make up for this gap in development feasibility. While the earlier 2021 assessment included in Appendix G of the Housing Action Plan noted that some projects could be conducted with incentives, construction costs and interest rates have increased. In combination with other market changes, this has made it less likely that even these incentives can promote development in the short-term
- **The MFTE program should be maintained for the short-term, but changes should be explored as market conditions become more favorable.** The largest incentive for development provided by the City is the MFTE program, especially the eight-year program that does not include affordability requirements. This program should be maintained with the current eight-year option to incentivize development in broader areas and in more challenging conditions. The City would need to monitor the market conditions so that the 8-year program could be adjusted to include affordability requirements or be sunsetted as conditions improve. This should ensure that both the eight- and 12-year programs are performing similarly under positive market conditions.
- **Development incentives such as parking reductions and height increases can be effective in increasing residential densities and housing yields.** The parking reduction and height incentives available do not provide enough of an increase in the rates of return on equity to make new projects more likely to be built in general. These incentives could under more favorable market conditions make it easier for developers and

investors to coordinate bigger projects with greater residential densities for similar rates of return. Note that over the long term, height allowances and incentives should be examined to determine how the public benefits may be more feasible under improved market conditions.

- **Reductions in impact fees will likely only be attractive to developers committed to providing long-term affordable units.** When compared to the financial impacts of including permanent affordable housing in a project, the incentives from reduced (or waived) impact fees are not substantial enough to make them attractive to for-profit developers on their own. Because of this, impact fee waivers are probably only useful for projects that would have included affordable housing due to other incentive programs, and even in these situations the impacts of waivers will be small. While these incentives should be maintained, they will likely only provide benefits to affordable housing developers (private, public, or non-profit organizations).
- **Overall, short-term actions should focus on housing feasibility with a long-term focus on incentivizing affordable housing.** Since available incentives will not be enough to make up for the identified gaps in project feasibility, there are few options available to boost local development yields in the short term. Because of this, the existing incentive programs examined in this assessment should be maintained at their current levels to promote the production of housing as market conditions improve. As these market conditions change, though, the City should re-examine these incentives, especially the MFTE program and the in-lieu payment option for height increases, to ensure that these programs can be realigned to promote affordable housing as a public benefit.

